

Case Study

**Cullman, Alabama: Industrial Speculative Building
Program Diversifies Economic Base**

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Overview Cullman, Alabama: Industrial Speculative Building Program Diversifies Economic Base

Prior to the 1980s, Cullman, Alabama was an agriculture town with a significant portion of its manufacturing base in poultry production. Today, Cullman continues to lead Alabama in poultry production, but also has a diversified economy that offers a wider range of job opportunities for its residents.

Cullman realized that its lack of industrial space limited its economic development potential. The Cullman Community and Economic Development Agency, City of Cullman Industrial Development Board, and Cullman County Industrial Development Board created an industrial speculative building program to address the shortage of industrial space as well as meet the diverse needs of any manufacturer.

Cullman's industrial speculative building program has enabled it to control and shape the type of development that occurs. Also, it has become an innovative marketing agent for the whole community.

Conditions Leading to the Practice

During the early 1980s, Cullman, Alabama was faced with a shortage of manufacturing space. Not only was there not have enough space to meet the rising demand, but most of the available space was functionally obsolescent. According to the Cullman Community and Economic Development Agency, the community was not considered to be a viable choice by most companies looking to relocate to or expand into Alabama. Cullman averaged one prospect per month.

Cullman County's unemployment rate averaged 10.4 percent in 1980, reports the Alabama Department of Industrial Relations Labor Market Division. Of the 58 manufacturers located in the community that year, sixteen, or 28 percent, were in poultry- or agriculture-related industries, according to the Cullman Community and Economic Development Agency. While the textile manufacturing industry was expanding, local economic development leaders felt the community lacked industries with high-quality, high-paying jobs.

At the time, Cullman County's per capita income was \$6,733, according to the U.S. Bureau of Economic Analysis, just below the Alabama county average (\$6,742). A small rural community, Cullman had a population of just above 60,000 and its industry employed approximately 14,984 workers, according to the Alabama Department of Industrial Relations Labor Market Division.

Local economic development leaders had two main goals -- (1) diversify the economic base beyond poultry and textile and (2) attract industries that offered high-quality, high-paying jobs. They wanted to attract new companies that were labor-friendly, compatible with existing industry, and diversified the economic base but did not disrupt the competitive balance of existing industry.

They viewed public ownership of available space as a means to ensure that the type of industry allowed in Cullman served the public interest. In addition, they considered public ownership to provide Cullman with a comparative advantage, from a cost perspective, over communities where land was held by the profit-seeking private sector.

Although the Cullman Community and Economic Development Agency was certain that a speculative building program would prove an effective marketing tool for Cullman, the wider community-at-large remained skeptical.

Organization

In 1984, the Cullman Community and Economic Development Agency, City of Cullman Industrial Development Board, Cullman County Industrial Development Board and city and county governments formed a partnership to create an industrial speculative building program.

The city and county industrial development boards created the Speculative Building Committee. The committee, authorized to manage the overall program, is composed of three members from each board. The committee is charged with determining development specifications -- location for the building, the size of the building, type of construction, landscaping, design considerations (e.g., colors, scale), and utility readiness -- and presenting their recommendations to the full boards. The committee must approve all financial transactions involving the sale of properties developed as part of the program. The full boards approve contracts, bids, site selection, building design, and other relevant matters.

As the city's economic development office, the Cullman Community and Economic Agency manages and administers marketing efforts related to the speculative building program. The agency also provides staff support to the Speculative Building Committee. For example, staff members submit recommendations regarding development specifications to the Speculative Building Committee.

The Practice in Operation

Initial Financial Structure. The city set aside a 10-acre site in Cullman Industrial Park 1 for the first speculative building, and agreed to wait to be paid for the land after the building was constructed and sold. The city and county

industrial development boards appealed to the local financial lending industry to provide the capital to develop the building. All nine lending institutions participated.

The lending institutions provided the industrial development boards with a three-year loan at below-prime lending rates to cover the full cost of construction. The city and county co-signed the loans for the industrial development boards. They also agreed to purchase the banks' portion of the loan if the loan needed to be extended beyond the initial three-year term. This was the first time the city and county agreed to indemnify the banks. The city and county governments agreed to each be responsible for paying 50 percent of the interest. The boards planned to use the gain at sale to pay off the loans.

Construction of "Metal Skin." According to the Cullman Community and Economic Development Agency, the paperwork that precipitates the construction of a building takes approximately six months, longer than the actual construction period. Once the land was designated as the speculative building site and the title was transferred to the industrial development boards, construction began on Speculative Building 1.

Essentially, there are two types of speculative buildings -- shell or turnkey. Cullman has selected the shell building option. A shell building is finished to the exterior, and usually consists of four walls (3 permanent, 1 temporary) and a roof. From the outside, it may appear to be a completed structure. However, the interior is unfinished with no floor, plumbing or electrical facilities. Those details are specified by the end user.

Cullman's buildings typically have masonry eight-foot high on three sides. The fourth wall is left all metal to allow expansion of the building. Ceiling height is 24-foot clear with bay spacing 30 feet by 40 feet. No office space, parking lot paving or dock space is included, to allow as much flexibility in the structure as possible. Local engineers, local contractors and a local metal building manufacturer are utilized to insure the building is a true community project. A pad is compacted in place to allow the building to be doubled in size without additional site work.

The "metal skin" construction is more efficient for two reasons -- (1) it offers tenants a wide range of customization ability, and (2) it could be achieved in a relatively short period of time. The construction of the first building took less than five months and was completed in 1986.

Transaction Process. When preparing to sell the first building, the Speculative Building Committee established the following process. The building is sold to the tenant as constructed and the tenant is responsible for modifications or improvements. When the Cullman Community and Economic Development Agency receives an offer from a prospective tenant, the agency must present the

offer to the Speculative Building Committee for approval. The agency must address any special terms requested by the tenant at the negotiation table (e.g., incentives) with the city industrial development board for deliberation before discussion with the tenant.

Ownership Criteria. Speculative buildings in Cullman are subject to the community's zoning regulations for industrial parks. Generally, businesses that are not considered a nuisance -- "obnoxious, offensive or detrimental to any surrounding properties by reason of noise, smoke, gas, vibration, fumes, dust, fire, and explosive hazard" -- may be allowed to purchase a speculative building. Although the Cullman Community and Economic Development Agency did not target a particular industry or operation type, it did seek tenants with characteristics in line with the public interest goals (e.g., high paying jobs, labor-friendly, non-textile and non-poultry, compatible with existing industry) established at the program's onset.

The new owner must develop the site as specified in the original sales agreement. If the building is not completed within 18 months, its ownership reverts back to the industrial development boards.

The Marketing Program. Once the architectural design for a building is developed, the Cullman Community and Economic Development Agency automatically sends the schematic drawings, topographical map, and aerial photos to state and regional development agencies across Alabama (e.g., Alabama Development Office, North Alabama Industrial Association, Economic Development Partnership of Alabama). It also sends the information to previous prospects that were not ready to make a decision at the initial contact or unable to find adequate space.

The Cullman Community and Economic Development Agency manages a \$45,000 marketing program that includes advertisements in site selection magazines, brochures, presentations, and videos. The agency, Cullman Chamber of Commerce and both industrial development boards finance the marketing program.

Outcomes

It took three years to sell the first speculative building. United Kingdom-based Pressac purchased it in 1989, becoming the first foreign-based manufacturer to locate in Cullman.

Speculative Building Program Advances. Since 1986, three more shell buildings have been constructed and the fifth one is under development. Approximately 238,400 square feet of speculative space has been developed with the first four buildings. Tenant investments have added a total of 149,600 square feet to the buildings, resulting in a total inventory of 388,000 square feet. The

fifth building, when completed, will represent the largest project developed by the industrial development boards to date, with 100,000 square feet of speculative space.

The first building was constructed in Cullman Industrial Park 1 and the next three in Cullman Industrial Park 2. The fifth building is being developed on a freestanding site (30 acres) near the industrial parks. Plans are already underway for a sixth building to be developed in the new Cullman Industrial Park 3.

Successful Building Sales Sustain Program. The gain at sale received for each speculative building has been greater than the amount due on the construction loan and the purchase price of the land. In addition to paying the nine financial institutions within the three-year period specified and reimbursing the city for its land purchase, the industrial development boards have also been able to use the remaining balance toward the development of another building.

Following is a summary of the total private investment attracted through the speculative building program to date.

Building (Year Built)	Speculative Square Feet	Total Private Investment	Total Square Feet
1 (1986)	50,000	(1991) \$9.1 million (1997) \$4.6 million	80,000
2 (1993)	50,400	\$9 million	79,000
3 (1996)	69,000	\$4.2 million	69,000
4 (1998)	69,000	\$10.2 million	110,000
5 (1999)*	100,000	NA	NA
*Expected Completion Date is December 1999			
Source: Cullman Community and Economic Development Agency, August, 1999			

It took approximately three years for the Cullman Community and Economic Development Agency to sell the first two buildings. However, the third building sold before the roof was constructed, while the fourth building sold a month prior to its completed construction.

The industrial development boards have continued to borrow money to cover the full construction cost, and all nine financial institutions have continued to participate. Funds left over from the gain at sale have been allocated towards improving the attractiveness of the sites (e.g., landscaping) as well as related marketing activities and incentives options. All proceeds left over from the sale of the buildings are held in a joint bank account in which each industrial development board is a 50 percent stakeholder.

As the industrial development boards demonstrated the ability to pay back the loans within the loan term, the banks did not require the city or county debt coverage commitment for the fourth or fifth buildings. The industrial development boards also attracted a new financial partner for these two buildings. Through its economic development loan program, the Tennessee Valley Authority

(TVA) loaned the boards \$900,000 for the construction of the fourth building. Due to the speculative building program's successful track record with three established buildings, TVA offered the industrial development boards a three-year loan at zero interest for the first six months, allowing for greater savings in the construction cost. Similar to the former commitment by the city and county, the banks agreed to purchase the loan from TVA if the boards could not pay back the loan within three years. When the fourth building sold before construction was completed, the industrial development boards paid back the loan to TVA during the construction period.

For the fifth building, a tract of land near the industrial parks was chosen for the site that was already owned by the City Industrial Development Board. TVA is again a financial partner, loaning the boards \$1.2 million for the construction. According to the Cullman Community and Economic Development Agency, this is the largest loan TVA has ever provided for a public speculative building program.

Nearly 600 Jobs in Diverse Industries Created. The Industrial Speculative Building program alone has persuaded four companies to invest in significant operations in Cullman, resulting in nearly 600 new jobs since 1986. A review of these companies illustrates their contribution to the diversification of the economic base in Cullman.

Following is a summary.

Company	Building (Year Sold)	New Jobs	Brief Description
Pressac	1 (1989)	187	British manufacturer of <i>printed circuit boards</i> for automotive industry; supplier to all of the "Big Three" U.S. auto makers (SIC 3800)
IMI Cash Valve	2 (1996)	135	British manufacturer of pressure release valves for hot water heaters and pressurized cylinders (SIC 3800)
SUMMA Technology, Inc.	3 (1996)	73*	Huntsville, Alabama-based U.S. Department of Defense contractor and manufacturer of loading systems for U.S. Army (SIC 3715)
Webb Wheel Products, Inc.	4 (1999)	80**	U.S. manufacturer of wheels, hubs, and brake drums for truck trailers (SIC: 3714)
<i>Note: Already employ 392 people in Cullman Industrial Park 1</i>			
*Summa Technology, Inc. announced plans to add an additional 80 jobs over the next five months			
**Webb Wheel Products will hire 80 people at the new speculative building when it starts operations over the next few months			
Source: Cullman Community and Economic Development Agency, July 1999			

Marketing Tool Sparks Ancillary Developments. In 1995, the Cullman Community and Economic Development Agency received a call from REHAU Incorporated, a Swiss manufacturer of polymers and first-tier supplier of Mercedes-Benz. REHAU requested information about speculative space, citing an advertisement that appeared in a site selection magazine, but indicated they only needed 30,000 square feet. Although the planned 69,000 square-foot speculative building exceeded REHAU's stated requirements, the Cullman Community and Economic Development Agency invited REHAU to visit the community. REHAU did not locate in a speculative building, but did choose Cullman for a \$130 million, 360,000- square-foot facility that now employs 330 workers.

Cullman's speculative building program served as the anchor that led the company to discover the other advantages of operating in Cullman. The increase in prospect activity has positively correlated with the growth of the speculative building program, particularly in recent months. From January to July 1999, the Cullman Community and Economic Development Agency received over 60 prospect visits.

Overall Economic Profile Improved. Cullman's speculative building program is not the sole reason for the community's improved economic performance over the last twenty years, but there is a positive correlation. The U.S. Bureau of Economic Analysis indicates that Cullman County's per capita income, as of 1997, is \$19,093, a 184 percent increase over 1980. The economic picture has generally improved for most Alabama communities, however, Cullman County, once below the Alabama average for per capita income, now ranks 20th in the state, or in the top-third.

Approximately 9,462 net new jobs were created in Cullman County from 1980 to 1997, according to the Alabama Department of Industrial Relations Labor Market Division, increasing the labor market by 64 percent. As of 1997, this rural community, with a population of just under 75,000 residents, employs 24,446 workers. Cullman's unemployment rate shifted from an average 10.4 percent in 1980 to 4.2 percent in 1997 and 3.4 percent in 1998.

Based on information from the U.S. Bureau of the Census, as reported in *The Cullman Times*, the City of Cullman was the "fifth fastest-growing city of more than 10,000 people in Alabama" from 1990 to 1996, as its population jumped from 13,367 to 18,195, respectively.

Conclusion

Cullman's program is a good example of what a small, rural community can do to promote economic development. Once a community with little or functionally obsolescent industrial space, Cullman has earned itself a reputation for providing innovative and fully customizable speculative space. In less than 15 years,

Cullman's speculative building program has attracted more than \$37.1 million of new investment, resulting in nearly 600 new jobs.

Its proximity to the Mercedes-Benz facility, as well as the new Honda facility, and operations by Nissan, Saturn and Ford will allow Cullman to serve a niche market of automotive suppliers through its speculative building program. The initial challenge of convincing the public that such a program could be an effective marketing tool for Cullman no longer exists. As the fifth building developed out of this program is scheduled for completion by year-end 1999, the Cullman Community and Economic Development Agency, City of Cullman Industrial Development Board, and Cullman County Industrial Development Board have plans to build more speculative space for years to come.

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Chronology

1984	Cullman Community and Economic Development Agency, City of Cullman Industrial Development Board, and Cullman County Industrial Development Board formed partnership to create industrial speculative building program. Speculative Building Committee is created.
1985	First speculative building constructed in Cullman Industrial Park 1.
1989	United Kingdom-based Pressac purchased first speculative building, becoming first foreign-based manufacturer to locate in Cullman.
1993	Second speculative building constructed in Cullman Industrial Park 2.
1996	United Kingdom-based IMI Cash Valve purchased second speculative building.
1996	Third speculative building constructed in Cullman Industrial Park 2. SUMMA Technology, Inc. purchased third building before construction was completed.

1998-1999

Fourth speculative building constructed in Cullman Industrial Park 2.

Webb Wheel Products, Inc. purchased fourth building before construction was completed.

Fifth speculative building under way on a publicly owned 34-acre site located near Cullman Industrial Parks 1 and 2.